

30 September 2022



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WPMA's submission on the draft Forestry and Wood Processing Industry Transformation Plan

The Wood Processors & Manufacturers Association of New Zealand (WPMA) would like to provide the following comments on the draft Forestry and Wood Processing Industry Transformation Plan (ITP) and the aspirations and actions contained within it.

WPMA represents the perspectives and interests of its members, including sawmill operators, timber and engineered wood manufacturers, pulp and paper producers, and suppliers that make a significant contribution to New Zealand's domestic economy and primary export sectors. Our members are companies that have made major investments in adding value to New Zealand's annual forest harvest and increasingly have a critical role in developing a bio-circular economy. WPMA members provide economic growth and employment opportunities across regional and metropolitan areas throughout New Zealand.

Domestically processed and manufactured wood products are a significant contributor to the New Zealand economy, with exports expected to increase by 12 per cent to \$2.85 billion in the year to 30 June 2022,¹ which includes the export of sawn timber, paper and packaging, engineered timber products, manufactured panels, as well as other wood products. The wider wood processing sector is a large employer of workers across New Zealand, with 30,645 workers employed mostly in the regions close to log supply.²

Executive Summary

The ITP has the potential to bring the wider forestry and wood processing and manufacturing sectors together under a united vision. Essential to this will require the ability to achieve the right balance between enabling foresters and the industry to grow and add value to their businesses with that of meeting the country's net zero carbon aspirations by 2050.

WPMA's submission on the ITP provides feedback on the opportunities and challenges faced by members within the wood processing and manufacturing sector now and into the future. Our feedback is largely focused on selected actions under Objectives 4-8 which are most relevant to our membership and, in our view, offer the greatest potential in meeting the vision and goals of the ITP.

We do believe the ITP falls short of recognising the role of wood processors and manufacturers contribution to New Zealand's bio-circular economy and its role in reducing carbon emissions through the greater uptake of timber in new buildings. Rather there appears to be an over emphasis of the processing sector as a generator of wood residue feedstock for 'innovative' processing into bioenergy and biofuels.

We note that some of the proposed actions potentially create a direct conflict with the ITP's broader objectives in wanting to expand the production capacity of wood processing and

¹ MPI's Situation and Outlook for Primary Industries June 2022 ([link](#)).

² Forestry and Wood Processing Workforce Action Plan 2020–2024 ([link](#)).

manufacturing operations, while also seeking to grow a bioenergy sector competing for the same wood source.

The need for 'forced choice' prioritisation of selected actions, that are at times difficult to interpret, has made it challenging for WPMA to provide objective feedback on the wider implications and associated consequences of various actions proposed. Further analysis on refining and quantifying the impact of selected actions in realising the ITP's vision and goals will be critical in gaining support from the wider forestry and wood processing and manufacturing sectors going forward.

Within this submission we have placed greater emphasis and support on enabling actions that are likely to encourage greater investment within the wood processing and manufacturing sector that expand processing capacity and building stronger and more resilient businesses into the future. We accept further work is required in the development of the ITP based on the consultation process currently underway. WPMA would like to offer its assistance and insights on further refinement of the vision, goals and future actions in the development of the final ITP.

Overall comments

WPMA wishes to acknowledge the efforts of the Advisory Group and Te Uru Rākau in bringing this ITP together. We believe the ITP has the potential to provide long-term direction and a whole-of-industry strategy for the forestry and wood processing sectors. Our expectation is that the ITP will provide the impetus and fortitude to change the regulatory mechanisms required to incentivise long-needed domestic re-investment to generate increased value from New Zealand's harvest of logs and wood residues.

Overall, we largely agree with the challenges and opportunities identified by the Advisory Group within the ITP – of which there are many. We accept that the Government has a role in developing New Zealand's woody biomass industry, particularly where this development is in the broader public and economic interests for the country to become a bio-circular economy.

The ITP provides a leading indicator of potential actions that could make a positive difference in achieving the broader goals within the Plan. We urge that further work be undertaken in analysing and exploring mechanisms to be able to achieve the overarching objectives of the Government in seeding investment in a bio-circular economic future and one commensurate with New Zealand's commitment to a 150 million tonne reduction in net national emissions by 2035.

WPMA is, however, concerned that the language used around many of the actions is passive, and could be viewed as lacking the necessary urgency to affect the scale of change required in driving reinvestment within the wood processing and manufacturing sectors, as well as the Government's own commitments to climate change and other environmental imperatives. To assist the Advisory Group and the Forestry Minister in completing the final ITP report, we identify key actions that have the potential to make a meaningful difference and provide long-lasting benefits to the wood processing and manufacturing sectors in meeting the vision and goals set by the Advisory Group.

We are apprehensive about a selective focus on the 'new and innovative' uses of wood fibre that would appear to reflect a lack of understanding of key drivers for investment within New Zealand's existing wood processing and manufacturing sectors. This is particularly so where proposed government supported interventions have the potential to displace rather than augment existing commercial investment within the sector.

WPMA is highly supportive of actions within the ITP that are enabling of domestic investment by businesses within the wood processing and manufacturing sectors, and that provide the necessary confidence to invest capital into their existing, as well as new, business operations. We note that this will require change to existing regulatory and policy settings.

The ITP fairly identifies the lost opportunity to ‘add value’ to New Zealand’s annual harvest that is exported in raw log form and the impediment that generates domestically in the form of insecure log supply to underpin future investment decision making in domestic processing. We trust that there is the political will to be bold and aspirational in changing existing regulatory and policy settings.

We look forward to participating in planned ‘iterative processes’ that meaningfully support businesses to invest in domestic wood manufacturing technologies and expanded processing capacity to meet the outcomes and opportunities identified within the ITP.

Vision

WPMA is highly supportive of the ITP’s vision for the forestry and wood processing sector to generate more value for New Zealand as a key and continued pillar of our regional communities.

The wood processing and manufacturing sector is core to New Zealand in expanding its role within a bio-circular and low-emissions carbon economy. Fundamental to this is the long-term and reliable supply of wood fibre, supported by opportunities to invest in advanced manufacturing technologies and expanded processing capacity.

Challenges identified in the Plan

We generally agree with the long-standing challenges identified within the ITP (p. 25). For transformational change to occur in meeting the vision outlined within the ITP, some form of sectorial reset will be required to achieve some of the broader objectives and goals contained in it.

We note the concerns about the over-reliance on a single species (*Pinus radiata*), but also wish to raise the trade-offs inherent in spreading transformational effort across a wider range of wood species. This includes long-term research and development investment commitment, development of supply chain partners, and establishing a clear line of sight to market that gives confidence to foresters to want to plant alternative species.

Certainty of supply and its flow-on effects

WPMA agrees that a key challenge faced by wood processors and manufacturers is certainty about the supply of logs and wood fibre for further processing. Our members advise that access to logs and wood fibre is a major concern to them, particularly when there is strong competition for raw logs from the Chinese market. The factors underpinning that strong competition have been the subject of a number of studies, including an MFAT-funded analysis by Sense Partners,³ and we recommend that the findings of this study be considered as part of the ITP.

It is difficult for wood processors and manufacturers to secure long-term supply contracts as it appears that foresters’ preference is for the short-term cyclical commodity pricing of logs. This does create challenges for domestic wood processors and manufacturers in taking longer-term investment positions that are dependent on access to reliable sources of logs and wood fibre.

The challenge in not being able to secure long-term supply contracts, or a guaranteed supply of logs from forest estates, does hinder capital investment in expanding new wood processing capacity (as referred to under point 3 – Static wood processing capacity and low levels of new investment). New Zealand is unique in that its forest estates are largely in private ownership, compared to other countries where there is some form of state ownership that provides a reliable and long-term source of logs and wood fibre to their respective domestic wood processors.

³ MFAT-funded report by Sense Partners on [Impact of global trade distortions – Effects on NZ exports of logs, timber and fibreboard](#)).

Securing longer-term supply and pricing contracts of over 15 years would give wood processors and manufacturers confidence to expand processing capacity and invest in advanced manufacturing equipment and technologies. All of which would be required to meet the ITP's goals of increasing the share of logs processed on-shore in growing the export of value-added wood products (see point 4 – Lack of international competitiveness for processed wood products).

Social licence challenges

Under the social licence challenge (point 7), it is unclear what work is needed to improve public perceptions of forestry and whether this is of the industry or the Government's making. WPMA is acutely aware of the political and social costs arising from land use change driven by market demand and/or regulatory settings assessed to be in the public interest.

The recent announcement by the Government to continue to allow exotic permanent forestry to collect NZUs does have a real economic and social impact on rural communities, as increasing levels of productive land is locked up with no commercial or regulatory motivation to harvest. The long-term impact will undoubtedly have a negative impact on our regional communities through fewer employment opportunities, reduced investment or closure of the primary processing capacity of food and fibre products, and deteriorating economic conditions in the regions.

WPMA accepts that there are geographies within New Zealand where permanent afforestation has some form of benefit where there is low risk of erosion and/or the cost of extraction and transport is prohibitively high. The NES for Plantation Forestry recently agreed to by the Government has addressed those areas by land class, extending overt discretion over forestry land use to territorial government. The NES identifies land classes where mixed and more land use, including forestry, are permitted. It is those areas locked up in permanent exotic forest cover that represent a lost opportunity in expanding and transforming domestic wood processing capacity.

We also note that as a small open market New Zealand is highly dependent on the export of its primary products that are directly exposed to changing consumer perception and shifting market demand. The risks of negative public perceptions is more keenly felt by our primary producers than is perhaps the case for our international competitors who have large domestic markets.

Opportunities identified in the Plan

There are a broad range of opportunities covered within the ITP. While we generally agree with the opportunities identified, in principle, the ability to fully realise and exploit these requires further deliberation and more robust analysis, particularly on the likelihood of the actions having a long-lasting and enduring impact in achieving the outcomes sought by the Advisory Group and the Minister.

WPMA sees very real opportunities for improving the investment environment to better support the wood processing and manufacturing sectors (actions 4.1 & 4.2), and through receiving the value of Harvested Wood Products (HWP) accounting benefits in processing logs into long-lived products under the Emission Trading Scheme (ETS) as identified under action 4.3. These areas could make an immediate and meaningful difference in encouraging wood processors and manufacturers to invest in expanding processing capacity, and in new advanced manufacturing equipment that in turn creates greater levels of higher-value wood products, in particular mass engineered timber products.

That benefit is most likely to accrue where there are commensurate actions targeted at reducing New Zealand's greenhouse gas emissions within the building and construction industry in transitioning to wood products with low-embodied carbon, including the imposition of countervailing 'carbon border adjustments' on imports of carbon-intensive materials.

The opportunities to transform the sector need to be balanced with competing demands for logs and wood fibre from existing wood processors, manufacturers and raw log exporters, and that of new and growing demand drivers for wood fibre to produce bioenergy for industrial-scale processed heat and biocrude to refine sustainable aviation fuel. A related factor that needs to be specifically weighed up is the looming gap in the availability of wood fibre post-2030 attributed to the decline of replanting in the mid-2000s, which in part reflects regulatory changes that reduced afforestation rates and, in some instances, incentivised deforestation.

ITP's goals

The ITP proposes five aspirational goals to measure the progress of the Plan (p. 28).

[Goal 1: Carbon emissions reduce by 6.9 million tonnes by 2030 and 54 million tonnes by 2050](#)

WPMA sees an important role for wood products in reducing embodied carbon in the building and construction industry. This said, we do find the information and calculations contained within this goal very confusing (p. 28). By way of example, it is calculated that 16.4 million tonnes of wood fuel will be required to replace 9.2 million tonnes of coal. Is this per year or the quantum required out to 2030 or 2050?

It is unclear whether the figures are gross CO₂ levels or are net values after other carbon emissions have been accounted for, such as the use of fossil fuels to extract and transport wood fibre for further processing to produce wood pellets. Greater clarity on the metrics that support this goal would be helpful in measuring the long-term success of the ITP.

[Goal 2: Wood processing increases by 3.5 million m³ \(25%\) by 2030](#)

WPMA supports the goals of increasing the capacity of existing processors in addition to establishing new sawmills. We do note that the wording should be amended, as 'underused' lower grade logs are an important input for existing wood manufacturing processes, including the production of pulp and paper products, packaging production, MDF, particleboard, etc. WPMA therefore proposes the following wording after 'Goal':

'This goal seeks to significantly scale up our domestic wood processing and manufacturing sectors in optimising the value of lower grade logs and reducing the quantity of commodity logs exported. In doing so, this provides greater assurance to investors in afforestation through an expanded and diversified competitive domestic market of New Zealand's annual log harvests.'

The question of how we might expand the production capacity within existing wood processor and manufacturer operations is covered under Goal 4 below.

[Goal 3: Export earnings from value-added wood products grow by \\$600 million by 2040](#)

WPMA supports this goal and suggests it be expanded to identify the increase in GDP from a combination of increased export and domestic earnings across the wood processing and manufacturing sectors. This could also include the value in balance of payments terms of the displacement of higher-cost imports.

[Goal 4: Use of wood products in construction increases by 25% by 2030](#)

Residential buildings already have a high wood component at around 95% in 2020. Structural timber is the most common type of framing used in residential building at 73% of new residential builds. The use of engineered timber as framing (LVL) in new residential builds is estimated to be 13%, with panel systems (including wood) making up 9% in 2020.⁴

⁴ Commerce Commissions Residential building supplies market study – Attachment C Structural timber case study ([link](#)).

There are opportunities to look at more innovative wood products in residential builds, including mass timber ground floors, quick assembled prefabricated wooden structures, etc. It is therefore suggested that the following be amended after 'The types of buildings that would be made with more wood products include':

Houses: *long-span beams of glulam or LVL and mass timber ground floors.*

As identified under this goal, the opportunity exists for the inclusion of the greater use of mass engineered timber products in larger-scale building structures, including mid-sized apartment complexes, commercial buildings, manufacturing plants, and farm buildings as an alternative to steel and concrete.

[Goal 5: Planting of alternative species \(non-radiata\) increases to 20% of all planting by 2030](#)

WPMA generally supports the goal of planting alternative species to improve the sector's resilience to climate change, biological threats and economic risks. To be successful, further applied research effort and extension activities will be required that consider, among other areas, geographical characteristics (such as high snow load), harvest on remote sites that are limited to the more valuable parts of a tree, etc.

To build a business model that supports the uptake of alternative species, we recommend this goal be expanded to developing a sustainable value chain from forest to market. Often alternative species are in small woodlots and geographically dispersed. To provide confidence for wood processors to invest in marketing and supply arrangements with their future customers, they need confidence in being able to access a reliable and long-term supply of alternative wood species.

Priority Area 2: Modernising and expanding the wood processing sector

[Action 4.1: Government investment to grow wood processing capacity](#)

WPMA is supportive of the proposed action to 'explore funding options to catalyse and accelerate investment in primary wood processing capacity to increased output of long-lived HWP and boost residue supplies to secondary processing.'

We are a little unclear what is exactly proposed under this action, making it difficult to provide direct feedback. This action could be read as the Government directly investing in advanced wood and bioeconomy processing equipment and plant. Therefore, greater clarity is required under this action, particularly if state intervention is proposed in specific areas within the 'wood processing and bioeconomy processing' sector at the expense of other areas (e.g. wood processor advanced equipment vs a biocrude refinery plant).

[Action 4.2: Improve financial incentives](#)

WPMA strongly supports improved tax and financial settings to spur industry investment in advanced wood processing by way of accelerated depreciation and recognising the carbon value of HWP. We believe this offers real opportunity to accelerate investment in advanced manufacturing equipment and expand processing capacity within the wood processing and manufacturing sector, which is essential in being able to achieve the vision of the ITP.

As highlighted in the [Advanced Manufacturing Draft Industry Transformation Plan](#), Australia is adopting a range of programmes to expand and support their manufacturing sector, including the Full Expensing of Depreciating Assets (estimated to deliver AUD\$26.7 billion in tax relief over the Budget 2020-21 forward estimates and \$3.2 billion over the medium term). Other countries have also implemented similar programmes to stimulate their manufacturing sectors following the Covid-19 pandemic. For Australia and those other countries that New Zealand enjoys an open trading relationship with, substantial differences in investment incentives applying to their manufacturing puts at risk domestic and international investment in advanced wood processing and bio-product manufacturing plants in New Zealand.

New Zealand has been very slow to consider far-reaching programmes to help invigorate the wood processing and wider manufacturing industries to the extent adopted by other countries in supporting their own manufacturing businesses. The effects of such policies have increased global demand for wood processing and manufacturing equipment, with members now reporting long delays of up to 2-3 years in securing new advanced technology.

Having accelerated depreciation and recognising the carbon value of HWP is by far our preferred means of stimulating capital investment in advanced manufacturing technology, as the proposed business growth funds and investment grants add more complexity, time delays and compliance costs to the business owner under these arrangements.

[Action 4.3: Investigate feasibility of a scheme to recognise carbon in harvested wood](#)

WPMA is highly supportive of the action where wood processors and manufacturers can recognise the value of HWP accounting benefits in processing logs into long-lived wood products under the ETS in proportion to internationally agreed half-lives for stored carbon.

The opportunity for HWP aligns with the ETS broader objectives of increasing carbon storage in forests and wood products, as well as supporting the ITP's and the Government's broader objectives to increase the productivity and competitiveness of New Zealand's wood processing and manufacturing sectors.

Even the second-year half-life recognised as accruing to paper products offers some financial advantage to New Zealand if it assists in displacing more problematic and emissions-intensive alternatives, such as plastics. This offers further environmental benefits in facilitating the Government's goal of decreasing solid waste in landfill and reducing the loss of plastics and micro-plastics entering waterways and the ocean.

Providing the financial benefit of NZUs to wood processors via the ETS gives an opportunity to further incentivise investment by wood processors and manufacturers in new advanced manufacturing equipment, and expanded production capacity to create more long-lived products, such as engineered timber products that store greater levels of carbon.

WPMA recommends that great importance be placed on this action, which is more affirmative and proactive, and recommend this be amended to:

'The Government will proactively work with the sector to investigate and shortlist regulatory and non-regulatory options in the establishment of a scheme to recognise the carbon stored in harvested wood products based on both recognised half-life, overall volume of production and other associated public benefits. Within the next six months this research will investigate selected shortlisted options to incentivise investment by wood processors and manufacturers, including an assessment of the feasibility, benefits, costs, risks and distributional impacts of the options with the preferred option being implemented without undue delay.'

Within the ITP, WPMA believes actions 4.2 & 4.3 provide the greatest opportunity to incentivise and accelerate investment in advanced manufacturing equipment and expand processing capacity within the wood processing and manufacturing sectors.

[Action 4.4: Investigate long-term options to address emissions leakage](#)

As noted in the ITP, governments around the world are implementing border adjustment mechanisms where they see their domestic manufacturing industries are being disadvantaged through trade-distorting practices, which now potentially includes a carbon border adjustment mechanism being applied in the European Union.

WPMA is supportive of a carbon border adjustment mechanism being applied in New Zealand, particularly where wood processors and manufacturers are being unfairly disadvantaged in competing with other countries that put in place trade restrictions and an increasing array of non-tariff barriers.

We also note that the principle underpinning border adjustment mechanisms has been long accepted in New Zealand in the form of existing Emissions Intensive Trade Exposed (EITE) business protections under the ETS. Expansion of EITE protections to more of New Zealand's wood processing and manufacturing sector would compensate in some measure for the indirect impact of domestic wood price distortions, as increasingly large bioenergy users (who enjoy substantive EITE protection) seek to expand their demand for wood fibre and logs as a biofuel to produce processed heat.

Drawing upon comparisons with the Trade (Anti-dumping and Countervailing Duties) Act 1988, we note that there is the ability of the Minister to impose anti-dumping or countervailing duties. However, we observe that these mechanisms are rarely applied by the Minister in practice, despite strong evidence that domestic manufacturers are disadvantaged through the importation of cheap subsidised product.

For this action to have merit, the Government needs to be prepared and strongly committed to imposing a carbon border adjustment mechanism that addresses emissions leakage in New Zealand.

[Action 4.5: Provide information to support investment](#)

It is a little unclear who the 'investors' are under this action. We are supportive of more investment in the sector, whether this be by the wood processor and manufacturer themselves, or external investors from outside the traditional business. We suggest this action be amended to:

'The Government will work with local government and industry organisations to support access to reliable information and insights critical to long-term investment decision making.'

WPMA also notes that a range of reports have been completed by MPI on developing the wood processing and bioenergy industries, including *New Zealand Wood Fibre Futures Stage One Report* ([link](#)) and *NZ Wood Fibre Futures Project Stage Two* ([link](#)).

We accept that often such reports are targeted to specific research areas without taking a wider whole-of-system perspective on current and potential competing demands for wood fibre into the future. A realistic view of the total available wood basket, now and in the future, is required. This analysis needs to be based on a realistic assessment of the wood available for harvest, including an analysis of the influence of the Government's interventions and associated unintended consequences (e.g. plantings of permanent exotic forestry for carbon farming with no intention to harvest).

[Action 4.6: Attract and facilitate new investment in the bioeconomy and advanced processing](#)

WPMA is generally supportive of the proposal that the 'Government will explore ways to attract and facilitate new investment in advanced wood processing and bioeconomy manufacturing to accelerate deployment of capital.'

We would not support a wider interpretation of this action, whereby the Government would intentionally fund or subsidise one aspect of the wood processing and bioeconomy manufacturing industry over another. This matter is particularly critical where alternative users of wood fibre are competing in the open market for the same wood basket (as also referred to under action 4.1).

Creating a bioeconomy (however this might be defined) through the conversion of wood fibre into biobased products and bioenergy is a prominent theme throughout the ITP. This is certainly an area where further exploration is required in extracting greater value from wood fibre vs return on investment. The ITP does appear to understate the sheer scale of what is required to effectively create an entirely new biomanufacturing industry fuelled by wood biomass, which has not been seen since the establishment of the Kawerau and Kinleith pulp and paper mills in the 1950s when plentiful supplies of wood fibre existed.

The biofuel opportunities arising from 'innovative' uses of wood has been well examined in other countries, suggesting there is a risk of duplicated investment in new research fields. WPMA recommends that future efforts be directed at the adaptation of this research and innovation examined in a New Zealand context. Given the risks associated in establishing a new industry, careful consideration would then be required of the feasibility of establishing a biomanufacturing operation(s) supported by an effective eco-system that can develop, sustain and grow this industry. This would include access to capital, a sustainable source of wood biomass, a clear line of sight to markets, a capable workforce with relative/developing expertise, and access to ongoing research expertise, etc.

The ITP needs to (at the very least) identify the strategic actions and pathways required to potentially create a New Zealand biomanufacturing industry able to efficiently produce biobased products and bioenergy, while not undermining existing wood manufacturing operations (pulp and paper, MDF, particle board, etc) that rely on the same feedstock. Expanded wood processing capacity could go some way to provide increased biomass in meeting multiple demands by existing and new users.

[Action 4.7: Facilitate planning and consenting processes](#)

Applying for and gaining Resource Management Act (RMA) planning consents to establish new or planned refurbishment of wood processing and manufacturing operations is time-consuming and extremely expensive. This can be a material impediment to investment for new or refurbished wood processing and manufacturing plants.

Once a consent is granted, there is then the time involved in ordering advanced manufacturing equipment (which could take 2-3 years in the current environment) and building or repurposing a plant (1-2 years). Given the time involved, the market opportunity that once existed has probably evaporated or been exploited by another offshore competitor supported by a more favourable planning and business-friendly environment operating within their own country.

We are pleased to see action 4.7 focus on helping to facilitate a planning and resource consenting process. Ideally, we would have liked to understand (or more forcefully put) how MPI intends to influence the Government in implementing changes to streamline and speed up the application process in meeting the RMA consenting and planning processes, and reduce the excessive compliance costs and time in applying for consents.

[Action 4.8: Industry engagement with the finance sector](#)

Industry and the Government could certainly do better in identifying and raising 'awareness of climate-friendly and productive investment opportunities' that potentially exist in the wood processing and manufacturing sector for the finance sector.

We observe that the Financial Markets Authority have investigated investment management schemes that offer ESG funds (i.e. include environmental, social and governance factors). It was interesting to note that in some cases descriptions of the fund's non-financial benefits or objectives were so high level or subjective as to be of no value.⁵ To deliver upon this action industry and the Government need to have common and clear principles in place about what is meant by 'climate-friendly and productive investment opportunities' that are objective, clear and accurate.

We also note that there appears to be some overlap with the overall intent of actions 4.6 & 4.8. We recommend that these be combined into an industry and government initiative to facilitate access of capital from the financial sector having regard to the above paragraph.

⁵ FMA – [Review of ethical investing claims in managed funds](#): 27 July 2022.

Action 5.1: Manufacturing cluster facilitation programme

Under this action it is proposed that a national cluster facilitation team be established (rather than investigate the concept of establishing such a team). It is unclear how the Advisory Group has defined this as an immediate need within the wood processing and manufacturing industry, or whether this is influenced through some other government policy programme. A further understanding of the role and scope of activities of the proposed national cluster facilitation team would be helpful to enable WPMA to provide more meaningful comment on this action.

We generally support the concept of greater integration of industry, education and research institutions, and Economic Development Agencies. To ensure the enduring success of such arrangements this needs to be a coalition of the willing, whereby the arrangements are strong enough to survive the up and downs of changing public funding and policy settings, and the ever-changeable commercial trading conditions within the wood processing and manufacturing industry.

We therefore propose that this action be changed. Instead, we recommend that an investigation be undertaken of the key attributes required for the establishment of world-class manufacturing clusters. Having explored this directly it would seem that successful clusters are often co-located near world-leading research institutions that are highly engaged with industry in research and development who willingly share their respective expertise (e.g. The Research Park based at University of Illinois Urbana-Champaign in the United States, Wageningen University in the Netherlands, etc). Also worthy to note is that clusters are often located in areas where people want to work and live next to well-functioning transport options.

Action 5.2: Support the development of regional manufacturing clusters

The Government's stated intention is to partner with the sector to explore, assess and deliver advanced wood processing manufacturing clusters. Regrettably, the ITP does not explore the current impediments to such an action, recognising that if companies see opportunities to form symbiotic relationships in working closely together (while adhering to New Zealand's competition laws), then this is or would presumably be occurring naturally as good business operating practice in shoring up supply chains. Therefore, it is critical to understand the barriers in setting up advanced wood processing manufacturing clusters.

The cost of establishing a new mid-sized sawmill is estimated to be around \$285 million.⁶ To warrant this level of investment it is essential for a company to have access to a reliable and long-term source of wood fibre, a labour pool featuring a broad range of skills and competencies, suitable transport infrastructure to receive wood fibre and move processed wood products to market or shipping ports for export. The location of clusters should at the very least consider these factors as part of a due diligence process as wood processing and manufacturers would.

As highlighted under action 4.7, it is difficult to get RMA consents for new wood processing and manufacturing operations on greenfield sites. While it is pleasing to see this action looking to overcome consenting barriers, this should not be limited to regional manufacturing clusters, but should apply more broadly to other businesses seeking to expand their production capacity within the sector regardless of location.

Action 5.3: Support innovation and commercialisation

Under this action it is proposed to 'Explore opportunities to support commercialisation of bioeconomy technologies and the successful uptake of low-carbon products, such as bio-pilot facilities and networks.'

It is unclear what this looks like. The outcome under action 5.3 would suggest this involves the commercialisation of bioeconomy research. Unfortunately, the transfer of research

⁶ Te Uru Rakau's NZ Wood Fibre Futures Project Stage Two report ([link](#)).

outcomes from publicly-funded research programmes to market is poor as researchers are not normally funded to undertake extension-based activities, often lack the ability to identify a pathway of their research to market, or have simply moved on to apply for the next research grant.

For the proposed research outcomes to have meaning a fundamental reset would require a change in the way publicly-funded research programmes are funded and operate. From WPMA's perspective this would include industry and/or commercial interests being involved in the research project proposals and/or being able to assess whether the proposed bioeconomy research presents a market opportunity for the sector or not.

[Action 5.4: Enhanced circularity of the value chain](#)

WPMA supports enhanced circularity of the value chain. We do note, however, that challenges and uncertainties exist with points 2 & 3 of this action:

- It is unclear how the Government will invest in '*sorting and processing infrastructure for construction and demolition waste*', and once this occurs what happens to construction and demolition waste streams.
- Similarly, what proposed regulations is the Government considering in establishing '*obligations [to who?] for separating construction and demolition materials*', and how these waste streams might be repurposed or used for biofuels within the constraints of existing environmental regulations.

Clear alignment is needed between this action and the Government's revision of the national waste strategy and the current Waste Minimisation Act 2008. Work on these programmes is well advanced, suggesting scope for direct reference to the national waste strategy and the ITP. Clear alignment of these overlapping workstreams will enable wood processors, building industries, researchers and regulators to consider how these points could be implemented in practice, including what changes need to occur to various regulations that cover the treatment and disposal of wood products and other waste streams from the construction and demolition of buildings.

[Action 6.1: Improve market transparency](#)

WPMA generally supports the concept of collecting log and biomass trading data to better inform growers, processors and end-users. We do, however, recommend that this action clearly articulates the objectives for which information is being collected and how it will add value in improving trading arrangements in practice.

We do note that most of the generated data has a lag time before it is publicly available. Therefore, the challenge is to collect real-time data to enable parties to make well-informed decisions as the market can rapidly move up and down. To collect real-time data would require significant investment, even if regulatory tools were put in place to make this a mandatory requirement.

The analysis of long-term forecasts of 'uncommitted' wood availability would be helpful to existing and new users of wood fibre. In developing the assumptions for this analysis, consideration should also be given to land being locked up in permanent exotic forests for carbon farming where this wood fibre is expected to be unavailable for harvest.

[Action 6.2: Support long-term trading contracts](#)

The challenge in not being able to secure long-term supply contracts or a guaranteed supply of logs from forest estates is a key consideration by wood processors and manufacturers in making long-term investment decisions. As noted above, New Zealand is unique in that its forest estates are largely in private ownership, compared to other countries where there is some form of state ownership providing a reliable and long-term source of wood fibre to their domestic wood processors.

Securing longer-term contracts of over 15 years would give wood processors and manufacturers greater confidence to invest in new processing capacity and advanced manufacturing equipment. How the 'Government will partner with the sector to develop log and biomass market trading arrangements' will require further consideration, in particular in securing long-term contracts that are acceptable to the government of the day.

Priority Area 3: Growing and diversifying domestic and export markets

[Action 7.1: Support the Timber Design Centre](#)

WPMA is a consortium member for the Timber Design Centre. We support the role of the Centre to address the barriers for greater use of timber and engineered wood solutions in building projects. Funding for the Centre by MPI ends in June 2023, therefore certainty about future funding arrangements for the Centre would provide the impetus to achieve this action.

[Action 7.2: Address technical barriers for innovative wood products, such as standards](#)

Wood processors and manufacturers require standards for their products to meet domestic and international market requirements. We strongly support the need to review regulations and standard setting processes that enable the sector to bring new and innovative wood products to market.

WPMA has previously expressed concerns over the standard setting process not working as effectively as it potentially could. This was further highlighted by the Commerce Commission in its recently released *Residential Building Supplies Market Study Draft Report*, where it identified that Standards NZ requires consensus-based approval of the standards setting process that can hold up the development of existing and new products used in the building industry (section C104).

Addressing regulations and standards that are limiting the use of alternative timber as an 'alternative solution' within the structural elements of a building or construction project need to be weighed up against return on investment for the sector in developing new standards or amending existing standards targeted at alternative timbers. Investment in revised standards is difficult in a sector where the cost is considerable and the national/public benefit (in the case of environmental improvement) is difficult to quantify.

[Action 7.3: Explore funding support for mass timber](#)

Anecdotally, WPMA believes there is a strong potential demand for mass timber construction.⁷ The challenge is whether there is enough production capacity to produce mass engineered timber products, such as cross laminated timber, laminated veneer lumber and glulam products, of the scale needed to meet anticipated growing demand.

Despite the growing awareness of the need to consider the environmental footprint of construction methods, price is expected to remain a primary driver of material choice. The use of timber in high-profile commercial and public buildings serves as a welcome advertisement for wood as an environmentally desirable product. That said, the majority of New Zealand's wood is used in the construction of residential housing where environmental considerations are limited to compliance with related parts of the Building Code. It is reasonable to assume that even a few percentage points difference in cost represents a significant incentive when compounded over the life of the average household mortgage.

WPMA recommends that specific consideration be given to facilitating the cost-effective specification of wood products within regulations under the Building Code. An additional or alternative measure could incentivise the greater use of wood products by way of a regulatory concession that recognises the low-embodied carbon attributes of wood-based products.

⁷ NZ Institute of Forestry's Conference 12 Sept 2022: Presentation by Simon Hardy of Warren & Mahoney.

To increase the production of mass engineered timber products will require significant capital investment by wood processors and manufacturers. As noted under action 4.2, improved tax and financial settings, such as accelerated depreciation and recognising the carbon value of HWPs, have the potential to increase investment in new advanced manufacturing plant to produce mass engineered timber products. Similarly, under action 4.3, the ability for wood processors to receive NZUs under the ETS could incentivise investment in new production capacity to create long-lived products, including mass engineered timber products, despite the delays associated with planning and consenting requirements.

[Action 7.5: Grow demand for bioproducts](#)

While WPMA supports different ways to increase the demand for bioproducts, this should be considered in a broader context. As noted under action 4.6, the ITP needs to consider the counterfactual 'competing demands' for wood fibre. That is, the biomanufacturing industry should be facilitated to operate efficiently and sustainably in the production of biobased products in a manner that doesn't undermine existing wood manufacturing operations (residues-based panel production, pulp and paper production and commodity-grade sawn timber) that rely on the same feedstock and operate without financial assistance from the Government.

[Action 8.1: Create and sell our forestry and wood product story](#)

WPMA is generally supportive of the Government and industry co-developing a marketing programme to deliver a sector-wide story. The success of such a strategy would require a long-term commitment and buy-in from the Government and the sector to continue to develop marketing resources for use by forestry and wood processing businesses.

The experience of the NZ Wood campaign would suggest that unless ongoing funding is secured, it is difficult to maintain momentum in creating and maintaining a sector-wide marketing story. This in part is due to the long-standing presumption that those producing the same and similar products seek to differentiate their offering on price and quality terms, and may not buy into the greater industry good argument.

[Action 8.2: Establish offshore in-market presence](#)

In principle, WPMA sees merit in the proposal where the Government and the sector co-fund in-market development staff in New Zealand's 'key export markets to improve market access and success for forestry products.' We are, however, wary of assuming great benefits from such investment or in the ability to address the trade-distorting features to enact immediate change.

It will be important to test the concept of government involvement in offshore market development with the industry. WPMA anticipates that the demands and expectations of the service(s) on offer will vary considerably across the wider industry, potentially creating a direct conflict for in-market development staff (e.g. building market demand for raw logs in a market that could be processed by New Zealand domestic wood processors for long-lived wood product exports).

[Action 8.3: Reduce non-tariff barriers to key markets](#)

We offer strong support for the action by the Government in working with domestic wood processors and manufacturers to reduce non-tariff barriers that currently limit the export of manufactured wood products to key export markets to improve market access.

In the aftermath of the Covid-19 pandemic there has been a rise of non-tariff trade barriers and reconsideration of the merit of trade rules considered the norm over the last two decades by other governments. It is our impression that trading nations, including some of New Zealand's traditional high-value markets, have become more inward-looking as they seek to protect their own domestic industries through non-tariff barriers. The use of 'border adjustment' and similar measures is difficult to criticise where the motivation or justification is based on another country's politicians seeking to decarbonise their domestic economy in line

with internationally agreed greenhouse gas commitments and/or increased criticism of inaction on climate change at home.

In the case of the wood processing and manufacturing sector, trade distortions represent a very real challenge for our members, or alternatively when competing at home against cheaper wood products fabricated in countries that provide greater support to their manufacturing base and/or lack the same commitment to reduce greenhouse gases or environmental effects.

As noted under action 4.2, Australia is adopting a range of programmes to expand and support their manufacturing sector, including the Full Expensing of Depreciating Assets. Other countries have also implemented similar programmes to stimulate their manufacturing sectors following the Covid-19 pandemic. For Australia and those other countries that New Zealand enjoys an open trading relationship with, substantial differences in investment incentives applying to their manufacturing puts at risk domestic and international investment in advanced wood processing and bio-product manufacturing plants in New Zealand.

Perverse as it may seem through more favourable tax structures, Australian wood manufacturing businesses could conceivably consider importing New Zealand logs for further processing, with re-export of the finished products to New Zealand under the joint Australian/New Zealand Standards, which would further undermine the goals of the ITP. To some extent this already happens as a result of differential treatment of the paper recycling industries operating in Australia and New Zealand.

Priority Area 4: Improving system settings for a thriving sector

Objective 11: Grow and attract the future workforce

We are encouraged to see a focus on work programmes intended to grow and attract the future workforce to the industry. Based on feedback from members, we do believe that the ITP needs to take a step back and consider the barriers to expanding training and education opportunities for workers within the forestry and wood processing and manufacturing sectors.

Concerns have been raised by members over the relevance of existing national qualifications for their workers and the performance of training providers in the delivery of work-based training programmes. To meet the broader aims of Objective 11, and to create a strong training platform, it is important to assess whether the existing qualifications and training programmes are fit for purpose and relevant, expand workers skillsets in selected occupations and add value to employers' businesses.

The ITP offers an opportunity to take stock of current training arrangements with workers and employers to more deeply explore the barriers to expanding training and education opportunities within the sector to grow our future workforce.

For more information

Should you wish to discuss any aspect of this submission, please call me on 027 226 3331.

Yours sincerely,



Stephen Macaulay
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